

Ms. Karen L. Bowne, Senior Reimbursement Manager  
Manor Care Health Services, Inc.  
11555 Darnestown Road  
Gaithersburg, Maryland 20878-3200

Re: AC# 3-MAN-J3 - Manor Care of Lexington, Inc.  
d/b/a Manor Care Rehabilitation and Nursing Center

Dear Ms. Bowne:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1992 through September 30, 1993. That report was used to set the rate covering the contract periods beginning October 1, 1994.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA  
State Auditor

EAVjr/trb

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Mac Carroll

**MANOR CARE OF LEXINGTON, INC.  
D/B/A MANOR CARE REHABILITATION  
AND NURSING CENTER**

**WEST COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1994  
AC# 3-MAN-J3**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 6, 1998

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, for the contract periods beginning October 1, 1994 and for the twelve month cost report period ended September 30, 1993, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
August 6, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA  
State Auditor

**MANOR CARE REHABILITATION AND NURSING CENTER**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1994  
AC# 3-MAN-J3

	<u>10/01/94-</u> <u>12/31/94</u>	<u>01/01/95-</u> <u>03/31/95</u>	<u>04/01/95-</u> <u>09/30/95</u>
Interim reimbursement rate (1)	\$76.99	\$72.27	\$72.27
Adjusted reimbursement rate	<u>75.66</u>	<u>70.94</u>	<u>70.94</u>
Decrease in reimbursement rate	\$ <u>1.33</u>	\$ <u>1.33</u>	\$ <u>1.33</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated July 17, 1998

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period October 1, 1994 Through December 31, 1994  
 AC# 3-MAN-J3

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ .82	\$31.28	\$32.10	\$31.28
Dietary	<u>.52</u>	<u>7.31</u>	<u>7.83</u>	<u>7.31</u>
Subtotal	<u>\$1.34</u>	38.59	39.93	38.59
Laundry/Housekeeping/Maint.	\$1.00	5.34	6.65	5.34
Administration & Med. Rec.	<u>-</u>	<u>14.14</u>	<u>7.05</u>	<u>7.05</u>
Subtotal	<u>\$1.00</u>	58.07	<u>\$53.63</u>	50.98
<u>Costs Not Subject to Standards:</u>				
Utilities		2.22		2.22
Special Services		4.71		4.71
Medical Supplies & Oxy.		2.09		2.09
Taxes and Insurance		1.31		1.31
Legal Fees		<u>.06</u>		<u>.06</u>
<b>TOTAL</b>		<u>\$68.46</u>		61.37
Inflation Factor (4.5%)				2.76
Cost of Capital				9.48
Cost of Capital Limitation				-
Profit Incentive (Max 3.5% of Allowable Cost)				1.00
Cost Incentive - For General Service & Dietary				1.34
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				(.84)
Laundry Add-on				.30
OTC/Nonlegend Drug Reimbursement				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$75.66</u>

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period January 1, 1995 Through March 31, 1995  
 AC# 3-MAN-J3

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ .82	\$31.28	\$32.10	\$31.28
Dietary	<u>.52</u>	<u>7.31</u>	<u>7.83</u>	<u>7.31</u>
Subtotal	<u>\$1.34</u>	38.59	39.93	38.59
Laundry/Housekeeping/Maint.	\$1.00	5.34	6.65	5.34
Administration & Med. Rec.	<u>-</u>	<u>14.14</u>	<u>7.05</u>	<u>7.05</u>
Subtotal	<u>\$1.00</u>	58.07	<u>\$53.63</u>	50.98
<u>Costs Not Subject to Standards:</u>				
Utilities		2.22		2.22
Special Services		.17		.17
Medical Supplies & Oxy.		2.11		2.11
Taxes and Insurance		1.31		1.31
Legal Fees		<u>.06</u>		<u>.06</u>
<b>TOTAL</b>		<u>\$63.94</u>		56.85
Inflation Factor (4.5%)				2.56
Cost of Capital				9.48
Cost of Capital Limitation				-
Profit Incentive (Max 3.5% of Allowable Cost)				1.00
Cost Incentive - For General Service & Dietary				1.34
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				(.84)
Laundry Add-on				.30
OTC/Nonlegend Drug Reimbursement				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$70.94</u>



**MANOR CARE REHABILITATION AND NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period April 1, 1995 Through September 30, 1995  
AC# 3-MAN-J3

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ .82	\$31.28	\$32.10	\$31.28
Dietary	<u>.52</u>	<u>7.31</u>	<u>7.83</u>	<u>7.31</u>
Subtotal	<u>\$1.34</u>	38.59	39.93	38.59
Laundry/Housekeeping/Maint.	\$1.00	5.34	6.65	5.34
Administration & Med. Rec.	<u>-</u>	<u>14.14</u>	<u>7.05</u>	<u>7.05</u>
Subtotal	<u>\$1.00</u>	58.07	<u>\$53.63</u>	50.98
<u>Costs Not Subject to Standards:</u>				
Utilities		2.22		2.22
Special Services		.17		.17
Medical Supplies & Oxy.		2.11		2.11
Taxes and Insurance		1.31		1.31
Legal Fees		<u>.06</u>		<u>.06</u>
<b>TOTAL</b>		<u>\$63.94</u>		56.85
Inflation Factor (4.5%)				2.56
Cost of Capital				9.48
Cost of Capital Limitation				-
Profit Incentive (Max 3.5% of Allowable Cost)				1.00
Cost Incentive - For General Service & Dietary				1.34
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				(.84)
Laundry Add-on				.30
OTC/Nonlegend Drug Reimbursement				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$70.94</u>

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1993  
 For the Contract Period October 1, 1994 Through December 31, 1994  
 AC# 3-MAN-J3

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,342,492	\$ -	\$ -	\$1,342,492
Dietary	313,958	-	-	313,958
Laundry	48,341	-	-	48,341
Housekeeping	103,867	-	-	103,867
Maintenance	76,832	-	-	76,832
Administration & Medical Records	606,882	-	-	606,882
Utilities	95,403	-	-	95,403
Special Services	202,312	-	-	202,312
Medical Supplies	89,498	-	-	89,498
Taxes & Insurance	110,749	-	54,415 (1)	56,334
Legal Fees	2,700	-	-	2,700
Cost of Capital	<u>406,859</u>	<u>-</u>	<u>-</u>	<u>406,859</u>
Subtotal	3,399,893	-	54,415	3,345,478

# MANOR CARE REHABILITATION AND NURSING CENTER

Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1993  
For The Contract Period October 1, 1994 Through December 31, 1994  
AC# 3-MAN-J3

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	125,362	-	-	125,362
Non-Allowable	<u>(37,139)</u>	<u>54,415(1)</u>	<u>-</u>	<u>17,276</u>
Total Operating Expenses	<u>\$3,488,116</u>	<u>\$54,415</u>	<u>\$54,415</u>	<u>\$3,488,116</u>
Total Patient Days *	<u>42,924</u>	<u>-</u>	<u>-</u>	<u>42,924</u>

\*Adjusted to 98% occupancy

TOTAL BEDS 120

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1993  
 For the Contract Periods January 1, 1995 Through September 30, 1995  
 AC# 3-MAN-J3

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,342,492	\$ -	\$ -	\$1,342,492
Dietary	313,958	-	-	313,958
Laundry	48,341	-	-	48,341
Housekeeping	103,867	-	-	103,867
Maintenance	76,832	-	-	76,832
Administration & Medical Records	606,882	-	-	606,882
Utilities	95,403	-	-	95,403
Special Services	7,477	-	-	7,477
Medical Supplies	90,732	-	-	90,732
Taxes & Insurance	110,749	-	54,415 (1)	56,334
Legal Fees	2,700	-	-	2,700
Cost of Capital	<u>406,859</u>	<u>-</u>	<u>-</u>	<u>406,859</u>
Subtotal	3,206,292	-	54,415	3,151,877

**MANOR CARE REHABILITATION AND NURSING CENTER**

Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1993  
For the Contract Periods January 1, 1995 Through September 30, 1995  
AC# 3-MAN-J3

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	125,362	-	-	125,362
Non-Allowable	<u>156,462</u>	<u>54,415(1)</u>	<u>-</u>	<u>210,877</u>
Total Operating Expenses	<u>\$3,488,116</u>	<u>\$54,415</u>	<u>\$54,415</u>	<u>\$3,488,116</u>
Total Patient Days *	<u>42,924</u>	<u>-</u>	<u>-</u>	<u>42,924</u>

\*Adjusted to 98% occupancy

TOTAL BEDS 120

# MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report  
Cost Report Period Ended September 30, 1993  
AC# 3-MAN-J3

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Nonallowable Taxes and Insurance	\$54,415	\$54,415
	To disallow DHEC bed tax expense State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	\$ <u>54,415</u>	\$ <u>54,415</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 1993  
 AC# 3-MAN-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.8981</u>
Deemed Asset Value (Per Bed)	29,644
Number of Beds	<u>120</u>
Deemed Asset Value	3,557,280
Improvements Since 1981	1,099,269
Accumulated Depreciation at 09/30/93	<u>(1,119,154)</u>
Deemed Depreciated Value	3,537,395
Market Rate of Return	<u>.075</u>
Total Annual Return	265,305
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	265,305
Depreciation Expense	141,365
Amortization Expense	6,866
Capital Related Income Offsets	(6,677)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	406,859
Total Patient Days (Minimum 98% Occupancy)	<u>42,924</u>
Cost of Capital Per Diem	\$ <u><u>9.48</u></u>

**MANOR CARE REHABILITATION AND NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1993  
AC# 3-MAN-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.93
Adjustment for Maximum Increase	<u>3.83</u>
Maximum Cost of Capital Per Diem	<u>\$10.76</u>
Weighted Average Reimbursable Cost of Capital Per Diem	\$ 9.48
Weighted Average Cost of Capital Per Diem	<u>9.48</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>